ECKLER

WINNIPEG
2475 – One Lombard Place
Winnipeg, Manitoba
Canada R3B 0X3

office +1 204.988.1586
fax +1 204.988.1589

Direct Line: 204-988-1572
Email Address: akulyk@eckler.ca

November 4, 2019

Winnipeg Police Pension Board
c/o Ms. Glenda Willis
Chief Executive Officer
Winnipeg Civic Employees' Benefits Program
5th Floor – 317 Donald Street
Winnipeg, MB R3B 2H6

Subject: **Winnipeg Police Pension Plan – Actuarial Report on Financial Implications of By-law No 86/2019**

Dear Ms. Willis and Winnipeg Police Pension Board:

We are pleased to provide this actuarial report on the financial implications of the By-law No. 86/2019 ("By-law") amending the Winnipeg Police Pension Plan ("Plan"). An actuarial report is required to be prepared by the Plan before modifying Plan terms that would materially affect the contributions or benefits payable under the Plan. The intended users of this report are the Winnipeg Police Pension Board and Winnipeg City Council.

The following Plan changes which have a substantive impact on the cost of benefits are reflected in the By-law:

1. **Overtime Earnings** - Eliminate overtime earnings from pensionable earnings effective January 1, 2020,
2. **Matching Contributions** - Adjust member and City of Winnipeg ("City") contributions in five steps over a four-year period so that by 2024, members and the City each contribute 11.5% of pensionable earnings on average,
3. **Bridge Benefit** - Eliminate the bridge benefit for service after January 1, 2020,
4. **Early Retirement Date** - The early retirement date is changed for all members who are not within 5 years of early retirement eligibility on January 1, 2020. Early retirement eligibility is changed to be age 55 or age 50 with 25 years of credited service.
5. **Early Retirement Reduction and Unreduced Retirement Date** - The unreduced retirement date is changed to age 55 and age plus continuous service equal to 80. Pensions are reduced on early retirement by 3.6% per year that retirement precedes the earlier of age 60, and age 55 and 80 points.

The following additional changes, which do not have a material financial impact based on the actuarial valuation, warranted some comments:

6. **Current Service Cost Exceeding 23% of Pay** – If the current service cost for non-indexed pensions exceeds 23% of pensionable earnings, the Plan must be amended so that the cost is not greater than 23% of pensionable earnings.
7. **Small Pensions –** eliminating the provisions that applied prior to legislation changes made in 2010.
8. **Commencement of Deferred Pension –** unreduced pension commencement age for future terminated deferred members is changed to be age 60.

Summary of Results and Conclusions

The following table provides a summary of the financial impact of the various Plan changes:

		Total Current Service Cost for Non-Indexed Benefits		
	Going-concern Liabilities ('000,000s)	Percent of Earnings	Estimated Dollar Amount ('000,000s)	City Current Service Cost Contribution
Value before amendment	$1,449.6	24.5%	$41.0	18.5%
Financial Impact of changes to:				
1 - Overtime Earnings	($8.4)	0.0%	($1.9)	-
2 - Matching Contributions	$0.0	-	-	(3.5%)
3 - Bridge Benefit	$0.0	(1.9%)	($2.9)	(1.9%)
4 - Early Retirement Date	($2.2)	-	$0.0	-
5 - Early Retirement Reduction and Unreduced Retirement Date	($9.0)	(1.4%)	($2.2)	(1.1%)
6 - Contribution limit of 23% of earnings	-	-	-	(0.5%)
Total impact of amendments	($19.6)	(3.3%)	($7.0)	(7.0%)
Adjustments to COLA	$9.8	n/a	n/a	n/a
Value after amendment	$1,439.8	21.2%	$34.0	11.5%

- There is a total reduction in going-concern liability of $19.6M before adjusting COLA, and $9.8 after adjustments to COLAs.
- Non-indexed current service cost as a percent of pay is reduced by 3.3% of pay, or $7.0M. It is important to note that the old percentage of 24.5% was based on earnings including overtime and the 21.2% is based on pay excluding overtime, therefore the dollar cost reduction is greater than 3.3% of earnings.
- Current service cost for non-indexed benefits after all changes is below 23% of earnings, leaving 1.8% of earnings to be fund future COLAs.
- The City's current service contribution is reduced from 18.5% earnings including overtime to 11.5% of earnings excluding overtime.

Potential legislation issues to address by further clarifying the By-law

Details of the following potential pension legislation issues are flagged in Appendix III to our report.

1. Last five years of overtime earnings versus best five years of overtime earnings.

2. The Pension Benefits Act requires that plans must allow pension commencement 10 years before the normal retirement date.

More detailed information about financial impact and methodology is provided in the appendices to this letter.

In my opinion, for the purposes of this report,

(a) the membership data on which the valuation is based are sufficient and reliable,
(b) the assumptions are appropriate, and
(c) the methods employed in our calculations are appropriate.

This report has been prepared and my opinion given in accordance with accepted actuarial practice in Canada.

Sincerely,

ECKLER LTD.



Andrew Kulyk, FSA, FCIA

Appendix I - Scope

We have included the following in our report:

- A brief explanation of each Plan change is provided to document our understanding of the Plan changes reflected in the By-law.
- For each of the Plan changes bearing a substantial financial impact noted above, we provide the estimated impact on going-concern liabilities, current service cost, and solvency liabilities of the Plan.
- We have added comments in addition to the estimated financial impacts to highlight some of the additional consequences of the various changes that might not be obvious. This also provides additional documentation of our understanding of the provisions.
- Since the Pension Benefits Act does not allow for the reduction of any accrued benefits, any amendment reducing accrued benefits would be considered void. Where applicable, we have identified any potential concerns relating to legislative requirements.

Out of Scope and Limitations of the Report

The Plan changes would also have an impact on the City's financial statements. However, we have considered the accounting impact to be out of the scope of this report.

We did not perform a detailed legal review of the draft By-law for internal consistency, for example to ensure all amended sections were properly cross referenced.

Appendix II - Methodology and Actuarial Assumptions

Except for the Matching Contributions, the Plan changes outlined in the By-law all take effect on January 1, 2020. The Matching Contributions phase in over four years with the first change taking effect on January 1, 2020 and 4 subsequent changes on each January 1 thereafter. For the purpose of evaluating the financial impact we have performed calculations as at the date of the last completed actuarial valuation of the plan, December 31, 2018 and treated the plan changes as though they occur on January 1, 2019, except for the Matching Contributions which we phase in over four years.

We have used membership data in the Plan as at December 31, 2018.

We have used the actuarial assumptions that applied for the valuation of the Plan performed as at December 31, 2018. Specifically, we have not assumed any changes to the termination and retirement pattern that the Plan changes could potentially cause.

Barring significant changes in the demographic profile of the Plan and actuarial assumptions during 2019, measuring the financial impact of the By-law as at December 31, 2018 provides a reasonable estimate of the financial impact as at January 1, 2020. To the best of our knowledge there have been no material changes to the data or assumptions since December 31, 2018 that would affect the results of our calculations.

The financial impact of each change presented below was evaluated in succession, meaning that the financial impact indicates the cumulative effect of the various Plan changes (as opposed to each change being evaluated independently). This approach provides a good measure of the cumulative financial impact of all of the changes, however the impact of each change on its own could be somewhat different if it was performed in a different order.

Actuarial Assumptions

Going-concern

Going-concern assumptions are in accordance with our *Actuarial Report on the Winnipeg Police Pension Plan Actuarial Valuation as at December 31, 2018*. The key economic assumptions are summarized below.

Valuation interest rate:	5.25% per year, net of investment-related expenses that are paid from the assets of the Plan.
Administration expenses	0.09% of the value of assets
Inflation:	2.0% per year

General increases in pensionable earnings:	3.25% per year[1]
Overtime pay:	Overtime pay was assumed to be equal to the same percentage of base pay that the member's overtime pay averaged during the three years preceding the valuation date.
Cost of living increases	Liabilities and current service cost are valued assuming cost of living increases equal to 55.4% of change in CPI. This is the rate of increase applicable for 2019.

Solvency

Interest rates for December 31, 2018:	• 3.23% per year for annuity purchase • 3.20% per year for 10 years and 3.40% per year thereafter for lump sum transfer.

[1] Scheduled rate increases according to the collective bargaining agreement are reflected in our valuation. For all years not specified we have assumed an increase equal to 3.25%.

Appendix III - Financial Analysis and Commentary

1. Overtime Earnings

Description of change

Currently the Plan benefit is based on the best average earnings for a member based on the best five consecutive years of earnings during employment where earnings includes overtime pay. The By-law eliminates overtime from the definition of earnings but provides a benefit for overtime earnings for pre-2020 credited service equal to 2% of the average overtime earnings from 2015-2019 (i.e. the "last five years" of overtime earnings before the Plan amendment).

Financial impact

Financial impact on:	Going-concern	Cumulative Going-concern (Costing 1 only)	Solvency
Liability (000,000's)	($8.4)	($8.4)	($1.6)
Estimated Current Service Cost for non-indexed benefits (000,000's)	($1.9)	($1.9)	n/a
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	0.0%	0.0%	n/a

Impact on Current Service Cost:	Current	Costing 1	Post Costing 1
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	24.5%	+0.0%	24.5%

Impact on COLAs:	Current	Costing 1	Post Costing 1
Resulting increase in COLA as a percent of CPI	55.4%	+1.2%	56.6%

There is a decrease in the solvency liability due to the difference between the overtime earnings reflected in the best five-years average changing to the last five-years average.

The going-concern liability decreases by $8.4M because our valuation includes a projection for increases to future earnings Freezing the final average overtime earnings at January 1, 2020 eliminates the assumed future increases in overtime earnings which reduces the projected benefits for pre-2020 service.

All else equal, the decrease in the going-concern liability of $8.4M would result in an increase in COLAs of 1.2% of CPI, a $4.2M increase in the liabilities, and $4.2M of assets would be transferred from the Main Account to the Contribution Stabilization Reserve.

There is $1.9M estimated savings on current service cost for removing overtime. The cost as a percent of pay is not materially affected because overtime is removed from the current service

cost in the numerator and overtime is removed from the earnings in the denominator. A derivation is provided:

(000,000's)	Before Amendment (Incl. Overtime Earnings)	After Amendment (Excl. Overtime Earnings)	Difference
Member contributions	$13.4	$12.8	($0.6)
City current service cost for non-indexed benefits	$27.6	$26.4	($1.2)
Total current service cost for non-indexed benefits (A)	$41.0	$39.2	($1.8)
Pensionable Earnings (B)	$167.6	$160.2	($7.5)
Total current service cost for non-indexed benefits as a percent of pensionable earnings (A) / (B)	24.5%	24.5%	

Additional comments

a) It is worth noting that our funding valuation assumption for overtime earnings is based on the most recent three-year average. Therefore, a component of the financial impact is the difference between the last three years and last five years of overtime earnings. On an individual member basis, we observed this benefit change ***increased*** liabilities for roughly 20% of members as they had large amounts of overtime in 2014 and 2015. For others, the liabilities decreased due to the elimination of salary projections on projected retirement benefit associated with the overtime earnings.

b) The benefit for overtime earnings is changed from being based on the "best five years" to "last five years ending December 31, 2019". For members close to retirement or members who have experienced large earnings fluctuations this potentially results in a decrease in their accrued benefit if they earned more overtime pay before January 1, 2015 which would no longer be considered in the determination of the benefit, or if their best five years change as a result of the removing overtime. It could also result in an increase in their benefit.

Potential issue to address by further clarifying the By-law

- We found 30 members who have a different 5 best consecutive years of earnings when overtime earnings are not included. Their ages range from 36 to 59.

c) The amended By-law provides a 2% benefit on all overtime earnings. Previously, it was possible for someone to be accruing a lifetime pension at the rate of 1.4% on some or all of their overtime earnings if their basic (non-overtime) earnings are below the CPP earnings limit. This aspect of the change may provide for a better benefit in some cases, the cost of which would be partly offset by a corresponding reduction to the bridge benefit described in "#3 – Bridge Benefit" later in this report. It's possible that this benefit could require a Past Service Pension Adjustment to be reported for affected members.

- In 2018 there were 16 members with basic (non-overtime) earnings below the CPP earnings limit, 10 of which had overtime earnings. Members such as these on the date of the amendment would experience an increase in benefit possibly requiring a PSPA calculation.

2. Matching Contributions

Description of change

Currently the Plan requires that members contribute 8% of earnings and the city is required to contribute:

a) Matching 8%, plus

b) the balance of the current service cost for non-indexed pensions if the Contribution Stabilization Reserve is nil or is not permitted by legislation to be used to reduce contributions because of the funded status of the Plan, plus

c) 2% of earnings (for costing of living increases), plus

d) Going concern or solvency special payments, if any.

The amended By-law changes the contributions as follows:

i. Employee and City matching contributions are based on the following table:

Tax Year	EE Contribution up to CPP Earnings	EE Contribution above CPP Earnings	City Contribution as a percent of EE contribution	City Contribution up to CPP Earnings	City Contribution above CPP Earnings
2020	8.35%	9.10%	164.4%	13.73%	14.96%
2021	8.70%	10.20%	144.7%	12.59%	14.76%
2022	9.05%	11.30%	127.7%	11.56%	14.43%
2023	9.40%	12.40%	113.0%	10.62%	14.01%
2024	9.75%	13.50%	100.0%	9.75%	13.50%

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ii. Going concern or solvency special payments, if any

Part (b), of the current provisions described above is no longer required on a regular basis because it is rendered moot except in rare instances. Provisions continue to exist with respect to the use of the Contribution Stabilization Reserve and additional funding for current service cost for non-indexed benefits where the current service cost is above 23% of earnings. However, since the total

matching contributions are equal to approximately 23% of pay, those provisions would only apply in the rare instances where service cost exceeds 23%, and then only for the one year following that valuation because Section 7(14) requires a corrective amendment to the By-law within one year from the valuation date.

Part (c) of the current provision is eliminated.

Financial impact

Financial impact on:	Going-concern	Cumulative - Going-concern (Costing 1 & 2)	Solvency
Liability (000,000's)	$0.0	($8.4)	-
Estimated Current Service Cost for non-indexed benefits (000,000's)	$0.0	($1.9)	n/a
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	0.0%	0.0%	n/a

Impact on Current Service Cost:	Post Costing 1	Costing 2	Post Costing 2
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	24.5%	+0.0%	24.5%

Impact on COLAs:	Post Costing 1	Costing 2	Post Costing 2
Resulting increase in COLA as a percent of CPI	56.6%	+0.0%	56.6%

Increasing member contribution rates does not materially impact the current service cost. However, each step rate increase in the member contributions would result in an equal reduction to the City's contributions. This reduction in City cost is not evident in the table above. Each step rate increase in the member contributions represents an increase of approximately 0.7% of earnings, or $1.08M based on the 2018 earnings without overtime and 2018 YMPE. Cumulatively, the five-step rate increase in member contributions results equate to an increase in member contributions of approximately 3.5% of pay, or $5.4M per year.

We confirm that the contribution rates result in the desired level of average percent of earnings reaching 11.5% in 2024. The results of our calculation, which are based on 2018 earnings without overtime and 2018 YMPE, are provided below.

Year	Employee Contributions based on 2018 Earnings & YMPE (without overtime)	Average Percent (%) of Earnings
2020	13,404,000	8.7%
2021	14,512,000	9.4%
2022	15,606,000	10.1%
2023	16,699,000	10.8%
2024+	17,792,000	11.5%

Additional comments

a) The Plan currently waives the contribution requirement for members with more than 40 years of Credited Service. This has been eliminated but was not specifically mentioned in the motion. One rationale for contributions to be waived under the current provisions is that a member with 40+ years of service would be expected to only accrue a very small increase in pension value, or possibly even have a decrease in value, due to not retiring and foregoing a year of pension payments. Therefore, they contribute but may get no value. However, we acknowledge this is a very minor issue; as at December 31, 2018 there are only three active members with more than 35 years of credited service (37.2 years, 39.97 years, and 39.99 years). It affects very few people, and the financial impact is trivial.

b) CRA does not allow member contributions greater than 9% of pay without a special waiver from CRA demonstrating that members are not expected to contribute more than 50% of the cost of benefits (Income Tax Act Section 8503 waiver). While we have not specifically checked whether this test would to be satisfied under the changes introduced by the By-law, it is likely that the test for the waiver would be satisfied for the following reasons:
   i. Future contributions after the four-year phase-in period are shared equally by the parties and the mechanism is such that members benefits should align with the level of contributions over time.
   ii. The test includes a measure of past service benefits and contributions, and members were contributing less than 50% of the cost before 2020.
   iii. For the purpose of the formula, accumulated employee contributions are tested against the value of benefits. Since employee contributions are credited with a CANSIM interest rate, which is much lower than the rate of return on the fund, the accumulated value of the contributions is lower than it might otherwise be which contributes to meeting the test for CRA.

c) The Plan has a minimum COLA provision whereby the level of funding for COLAs cannot reduce below 25% of the accumulated member required contributions with interest. This roughly equates to a minimum COLA of 12% of changes in CPI. Increasing the member contributions will increase future levels of accumulated member required contributions with interest and will therefore also increase the minimum level of COLA. Since the member contributions are increasing by roughly 45% (8% increasing to 11.5%), it is reasonable to infer that the future minimum level of COLA may also trend upwards by 45%, towards roughly 17% of changes in CPI.

3. Bridge Benefit

Description of change

Currently the Plan provides a benefit equal to 2% of best average earnings before age 65. After age 65 the benefit is equal to 1.4% of average CPP earnings and 2% of best average earnings above the CPP earnings. The additional pension paid until age 65 is a "bridge benefit" of 0.6% of CPP earnings.

The By-law eliminates the bridge benefit of 0.6% of CPP earnings for service after 2019. The provision is written such that the Plan provides a bridge benefit of 0.6% on basic earnings excluding overtime up to the CPP earnings for years of service prior to 2020.

Financial impact

Financial impact on:	Going-concern	Cumulative Going-concern (Costings 1-3)	Solvency
Liability (000,000's)	$0.0	($8.4)	-
Estimated Current Service Cost for non-indexed benefits (000,000's)	($2.9)	($4.8)	n/a
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	(1.9%)	(1.9%)	n/a
Impact on Current Service Cost:	**Post Costing 2**	**Costing 3**	**Post Costing 3**
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	24.5%	(1.9%)	22.6%
Impact on COLAs:	**Post Costing 2**	**Costing 3**	**Post Costing 3**
Resulting increase in COLA as a percent of CPI	56.6%	+0.0%	56.6%

Additional comments

The amended By-law provides a 0.6% bridge benefit on CPP earnings payable until age 65 not including overtime earnings, for service before 2020. It was possible under the current provisions for someone to accrue a bridge benefit on their overtime earnings if their basic (non-overtime) earnings are below the CPP earnings limit.

Considered in isolation this would appear to be a potential benefit reduction for those certain members earning below the CPP Earnings. However, considered together with the change to provide a 2% benefit lifetime benefit on overtime earnings pre-2020, this would not be considered a benefit reduction since the trade-off is a 0.6% lifetime pension paid on overtime earnings. It is worth noting that since a bridge benefit is considered an ancillary benefit, this impact does not offset any potential Past Service Pension Adjustment that may be required for affected members, as noted in #1 earlier in this report.

4. Early Retirement Date

Description of change

Currently the Plan provides for early retirement at age 50 or 20 years of Credited Service. The early retirement date remains unchanged for members within five years of attaining age 50 or 20 years of Credited Service. For new members and existing member not within five years of eligibility

for early retirement (i.e. younger than age 45 and with less than 15 years of Credited Service), the early retirement date is changed to be age 55, or age 50 with 25 years of Credited Service.

Financial impact

Financial impact on:	Going-concern	Cumulative Going-concern (Costing 1-4)	Solvency
Liability (000,000's)	($2.2)	($10.6)	-
Estimated Current Service Cost for non-indexed benefits (000,000's)	$0.0	($4.8)	n/a
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	0.0%	(1.9%)	n/a

Impact on Current Service Cost:	Post Costing 3	Costing 4	Post Costing 4
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	22.6%	+0.0%	22.6%

Impact on COLAs:	Post Costing 3	Costing 4	Post Costing 4
Resulting increase in COLA as a percent of CPI	56.6%	+0.3%	56.9%

The going-concern liability decreases by $2.2M because there are members under the age of 45 and less than 15 years of Credited Service whose eligibility for early retirement is delayed.

All else equal, the decrease in the going-concern liability of $2.2M would result in an increase in COLAs of 0.3% of CPI, a $1.1M increase in the liabilities, and $1.1M of assets would be transferred from the Main Account to the Contribution Stabilization Reserve.

Additional comments

The Pension Benefits Act requires the plan to allow for early retirement at least 10 years before normal retirement date (age 60). The change to the By-law may not satisfy this requirement based on the early retirement date of age 55, or age 50 and 25 years of Credited Service.

Potential issue to address by further clarifying the By-law

5. Early Retirement Reduction and Unreduced Retirement Date

This Plan change causes members to have a different unreduced date for pre-2020 service than post-2019 service. For the actuarial valuation, we assume different retirement rates depending on whether a member is eligible for early retirement or unreduced retirement. We have assumed grandfathered members that are age 45 or have 15 years of service on January 1, 2020 would continue to retire according to the retirement scale based on the pre-2020 unreduced retirement date, and other members would retire according to the retirement scale based on the post-2020 unreduced retirement date.

Description of change

Currently the Plan provides for a reduction in pension on early retirement, equal to 3.6% per year that the retirement date precedes the unreduced date (age 55 or 25 years of credited service), where the date is determined as though employment continued (i.e. with grow-in on service). The reduction is equal to a deduction of 3.6% per year multiplied by a 2% best average earnings benefit, i.e. it is not simply a 3.6% reduction to the lifetime pension.

The By-law is changing the method of applying the reduction to reduce the lifetime pension by 3.6% per year. The benefit is reduced by 3.6% for each year that retirement precedes the earlier of the date the member will attain age 60, or age 55 with 80 points based on continuous service at the date of retirement (i.e. without grow-in on service).

Currently the Plan provides an unreduced pension at normal retirement equal to age 60, but a member may receive an unreduced pension starting at the earlier of age 55 or 25 years of Credited Service. For service after January 1, 2020 the unreduced retirement date is being changed to the earlier of the date at which a member attains age 60, or age 55 and has 80 points based on age and continuous service.

Financial impact

Financial impact on:	Going-concern	Cumulative Going-concern (Costings 1-5)	Solvency
Liability (000,000's)	($9.0)	($19.6)	-
Estimated Current Service Cost for non-indexed benefits (000,000's)	($2.2)	($7.0)	n/a
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	(1.4%)	(3.3%)	n/a
Impact on Current Service Cost:	**Post Costing 4**	**Costing 5**	**Post Costing 5**
Current Service Cost as a % of Contributory Earnings for non-indexed benefits	22.6%	(1.4%)	21.2%
Impact on COLAs:	**Post Costing 4**	**Costing 5**	**Post Costing 5**
Resulting increase in COLA as a percent of CPI	56.9%	+1.3%	58.2%

The going-concern liability decreases by $9.0M primarily because, as noted above, the retirement scale that applies at unreduced retirement is based on the new unreduced retirement date for members who are not age 45 and do not have 15 years of Credited Service.

All else equal, this would result in an increase in COLAs of 1.3% of CPI, a $4.5M increase in the liabilities, and $4.5M of assets would be transferred from the Main Account to the Contribution Stabilization Reserve.

6. Current Service Cost Exceeding 23% of Pay

This Plan change has no financial impact on the cost of benefits. It does however limit the City's contribution for current service cost to be not more than 11.5% after 2023.

Description of change

This is a new provision. Total member and City contributions for current service cost for non-indexed benefits are limited to 23% of pensionable earnings not including overtime after 2019. The balance of contributions between the current service cost and 23% of pensionable earnings is left in the Plan to provide for COLAs. If an actuarial valuation shows that current service cost for non-indexed benefits is greater than 23% of earnings, City Council must take corrective action to amend the Plan within one year from the valuation date and reduce the cost to be not greater than 23% of earnings. As the valuations are typically completed in June of each calendar year, this would provide approximately six months to execute a change.

The two main situations where the City would be required to contribute more than the matching schedule of contributions are:

a) The City must contribute any special payments required to amortize a going-concern or solvency funding shortfall with respect to past service, and

b) In the calendar year immediately following a filed valuation that indicates the current service cost is greater than 23%, the City would be required to contribute the excess of the current service cost over 23% of pensionable earnings retroactive from the valuation date until the corrective amendment is made.

Additional comments

a) To the extent benefits cost less than 23% of earnings, contributions go into the fund resulting in "surplus" which eventually turns into benefits through COLA increases. Proposed Section 7(14) anticipates Plan costs increasing above 23% of earnings which requires a reduction to benefits. However, if the cost of benefits were to ever decrease, there is no automatic requirement to improve benefits. Since funding in excess of the non-indexed benefits results in larger COLA increases over time, all else being equal, the omission of a benefit increase provision could result in a systematic bias towards providing more COLAs in exchange for lower basic benefits over the long term (i.e. biased towards retirees over active members).

b) It is possible for a situation to arise where the current service cost including cost of living increases is less than 23% (for example if COLAs are reduced to the minimum level permitted by the Plan). This could mean that the full 23% contribution would not be eligible to be remitted under the Income Tax Act, though it is likely to coincide with a solvency/wind-up deficiency in which case the additional contributions would be eligible to be remitted to the Plan. In the absence of a solvency deficiency, some other actuarial adjustment may be required in the valuation to accommodate the contributions.

7. Small Pensions

Description of Change
This is not a substantive change. It is essentially eliminating the provisions that applied prior to legislation changes made in 2010.

Additional comments

a) The amended paragraph 7(12) provides for forced unlocking and commutation of the pension based on a test against the YMPE for the year in which the member "retired, died, or terminated". The YMPE increases each year and therefore the threshold for unlocking increases each year. Since a member may retire or die after terminating, it is therefore possible for the benefit to be greater than the unlocking threshold at termination but less than the unlocking threshold at a later event date (e.g. death or retirement). For administrative clarity we propose to clarify whether the small pension test should occur:

    a. only at the earliest of these three event dates, i.e. the date at which active membership is terminated, or

    b. at each and every event date, meaning someone could be locked-in at their termination date but potentially unlocked and forced to withdraw their benefit at their retirement date for example.

    This could instead be addressed by establishing a documented administrative policy.

8. Commencement of Deferred Pension

This has no material financial impact on the plan based on the valuation methodology and actuarial assumptions.

Description of Change

Paragraphs 13(1) and 13(2) of the Plan provide for the commencement of a deferred pension at a date prior to age 65. Previously:

a. a member terminating employment before age 55 or 25 years of Credited Service could defer pension commencement to age 60.

    - The age 55 or 25 years rule is changed to age 55. This aligns with the By-law changes to the early pension commencement age.

b. a deferred member who terminates employment while eligible for early retirement (age 50 or 20 years of Credited Service) receives the same early retirement pension reduction as someone retiring from active employment.

    - This is eliminated, effectively changing the early retirement reduction for all deferred pensions to be actuarially reduced from age 60.

c. other deferred members would have their pension reduced on an actuarial equivalent basis from age 60.

   - This was not changed